August 2025

Tax Changes in the One Big Beautiful Bill Act (OBBBA)

The 2025 Budget Reconciliation bill, also known as the One Big Beautiful Bill Act (OBBBA), was signed into law in July 2025. It included a number of changes to federal tax legislation that could affect your wealth. We've provided a summary of some of the key provisions for individuals and business owners. As always, we recommend talking with a tax professional to determine if these changes might affect your plans.

INDIVIDUAL INCOME TAXES

Extended existing federal tax rates

OBBBA extended the current federal income tax rates, with inflation adjustments, and kept the existing capital gains tax rates (0%, 15%, or 20%, depending on income). The current federal tax rates were established as part of the 2017 Tax Cuts and Job Act (TCJA) and were scheduled to sunset in 2025. Now, these rates will remain in place permanently—barring future action by Congress.

Increased standard deduction

The standard deduction was increased in the TCJA in 2017 and made permanent in the OBBBA. For 2025, the standard deduction will be $15,750 (single filing) and $31,500 (married filing jointly). It will be adjusted for inflation after 2025.

Estate tax exemption

The estate tax exemption was doubled by the TCJA and the increased exemption was extended in the OBBBA. The exemption slightly increased to $15M per person (or $30M per couple) starting in 2026, with additional inflation adjustments in future years.

Higher SALT cap

The OBBBA temporarily raised the deduction for state and local taxes (SALT), which includes property taxes, from $10,000 to $40,000 starting in 2025, with an additional 1% increase each year thereafter.

The higher SALT deduction phases down to $10,000 for single, head of household and married filing jointly taxpayers who have a modified adjusted gross income (MAGI) between $500,000-$600,000. The $40,000 SALT cap is scheduled to sunset in 2029 and revert to $10,000 in 2030.

Senior tax deduction

Taxpayers who are aged 65 or older are now eligible for a new deduction: $6,000 for single filers and $12,000 for married filing jointly (provided both are age 65 or older). There are income limits: the deduction is reduced for taxpayers whose MAGI exceeds $75,000 for single filers and $150,000 for joint filers. This deduction is in addition to the existing $2,000 deduction for single filers ($3,200 for married filers) who are 65 or older.

The $6,000 deduction is a below-the-line deduction, meaning that it is taken after calculating your adjusted gross income (AGI). Below-the-line deductions reduce your taxable income, but they don't affect other tax provisions based on AGI, such as the taxability of Social Security benefits or Medicare premiums. The $6,000 tax credit is set to expire after 2028.

Tip and overtime income tax deductions

Tipped employees can now deduct up to $25,000 of qualified tip income within certain industries for itemizers and non-itemizers, and a new overtime pay deduction allows workers to deduct $12,500 of overtime for single filers and $25,000 for joint filers from federal income tax.

Both the tip and overtime deductions are below-the-line deductions that do not reduce taxpayers' AGI and these deductions phase out for those with modified adjusted gross incomes above $150,000 for single filers and $300,000 for joint filers. These deductions are available from 2025 through 2028.

Car loan interest deduction

A new deduction for interest paid on new or refinanced car loans taken after December 31, 2024, allows taxpayers to deduct up to $10,000 annually on interest for loans on new personal vehicles with final assembly in the United States from 2025 through 2028. This deduction is reduced for single filers with an AGI over $100,000 ($200,000 for joint filers).

"Baby bonus" account program

The OBBBA created a new child saving account that may be opened by a child's parents or guardians. These accounts are expected to be available in July 2026. Children born between 2025 and 2028 qualify for an initial $1,000 contribution from the federal government. Parents can contribute a maximum of $5,000 a year. When the child reaches age 18, the account will look more like a standard traditional IRA.

These new accounts can be used in conjunction with existing 529 plans, which are designed to help cover a child's education expenses. Withdrawals from 529 plans are generally tax free if they're used for qualified education expenses.

529 plan changes

For 529 plans, the OBBBA increased eligible expenses for K-12 schooling from $10,000 to $20,000, starting in 2026 (note that not all states allow tax-free withdrawals from 529 plans for K-12 schooling costs) and allowed tax-free withdrawals to cover the costs of professional credentials, certifications, licensing, and continuing education programs.

Charitable giving deductions in 2026

Starting in 2026, taxpayers who don't itemize their deductions will be able to deduct $1,000 in charitable donations as a single filer and $2,000 as married filers. This allows people who make relatively modest gifts to charity to receive some tax credit for their contributions.

Taxpayers who do itemize their deductions can only deduct their charitable contributions if their donations exceed 0.5% of their adjusted gross income (AGI) starting in 2026. For example, a married couple with an AGI of $200,000 can deduct charitable contributions over $1,000. If you plan to make large charitable contributions, it could be beneficial to accelerate those donations to 2025 rather than 2026.

Remember that if you are aged 70 ½ or older, you can still make qualified charitable distributions (QCD) from your IRA as these don't count as itemized deductions and aren't subject to the new charitable giving requirements.

CHANGES FOR BUSINESS AND BUSINESS OWNERS

Expanded qualified small business stock (QSBS) exclusion

The OBBBA introduced a tiered capital-gain exclusions system for QSBS shares issued after July 4, 2025. Shares held at least three years receive a 50% exclusion, shares held at least four years qualify for a 75% exclusion, and shares held five or more years get a 100% exclusion. (QSBS acquired prior to July 4, 2025, must be held at least five years to exclude any gain.)

These changes may provide new planning opportunities. Talk with your tax professional about how these tax changes might affect you.